

KIMBALL SCHOOL DISTRICT NO. 7-2

AUDIT REPORT

JUNE 30, 2010

KIMBALL SCHOOL DISTRICT NO. 7-2
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
Kimball School District No. 7-2
Brule County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Kimball School District No. 7-2, Brule County, South Dakota, as of and for the fiscal year ended June 30, 2010 which collectively comprise Kimball School District's financial statements, and have issued my report thereon dated August 20, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Kimball School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control

over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

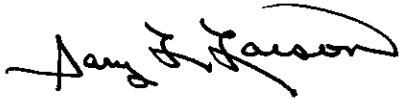
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the Schedule of Current Audit Findings and Questioned Costs as item number 2010-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kimball School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the South Dakota Legislature, the governing board and management of Kimball School District No. 7-2 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David E. Hanson". The signature is fluid and cursive, with a large initial "D" and "H".

August 20, 2010

Gary L. Larson, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Kimball School District No. 7-2
Brule County, South Dakota

Compliance:

I have audited the compliance of Kimball School District No. 7-2, Brule County, South Dakota with types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2010. Kimball School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kimball School District's management. My responsibility is to express an opinion on Kimball School District's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kimball School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Kimball School District's compliance with those requirements.

In my opinion, Kimball School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance:

The management of Kimball School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Kimball School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing an opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A control deficiency in the School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirements of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-02 to be a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control. Of the significant deficiencies in the internal control over compliance described in the accompanying schedule of findings and questioned costs, I consider item number 2010-02 to be a material weakness.

The Kimball School District's response to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of Kimball School District No. 7-2 and is not intended to be and should not be used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "David E. Larson". The signature is fluid and cursive, with a long horizontal line extending from the left.

August 20, 2010

Gary L. Larson, CPA

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INDEPENDENT AUDITOR'S REPORT

School Board
Kimball School District No. 7-2
Brule County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of Kimball School District No. 7-2, Brule County, South Dakota, as of June 30, 2010, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Kimball School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

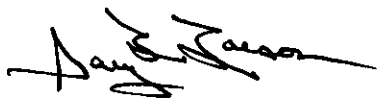
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Kimball School District No. 7-2 as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated August 20, 2010 on my consideration of Kimball School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 55 through 70 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Kimball School District No. 7-2 basic financial statements taken as a whole. The schedule of expenditures of federal awards is required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The Kimball School District No. 7-2 has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.



August 20, 2010

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF NET ASSETS
JUNE 30, 2010

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$1,893,761	\$13,197	\$1,906,958
Taxes receivable	524,031	0	524,031
Accounts receivable	95,706	8,583	104,289
Inventory	22,000	256	22,256
Restricted cash	30,000	0	30,000
Restricted investments	395,481	0	395,481
Capital Assets:			
Land	36,825	0	36,825
Other capital assets, net of depreciation	3,936,723	15,103	3,951,826
TOTAL ASSETS	\$6,934,527	\$37,139	\$6,971,666
LIABILITIES:			
Accounts payable	\$36,768	\$0	\$36,768
Other current liabilities	191,227	0	191,227
Deferred revenue	516,471	0	516,471
Noncurrent Liabilities:			
Due within one year	106,472	0	106,472
Due in more than one year	1,689,756	0	1,689,756
TOTAL LIABILITIES	2,540,694	0	2,540,694
NET ASSETS:			
Invested in capital assets, net of related debt	2,200,471	15,103	2,215,574
Restricted For:			
Debt service	425,481	0	425,481
Capital outlay	726,884	0	726,884
Special education	151,110	0	151,110
Food service	0	22,036	22,036
Unrestricted	889,887	0	889,887
TOTAL NET ASSETS	4,393,833	37,139	4,430,972
TOTAL LIABILITIES AND NET ASSETS	\$6,934,527	\$37,139	\$6,971,666

The accompanying notes to financial statements are an integral part of this statement.

Component Unit
\$8,232
0
0
0
0
0
0
0
0
<u>0</u>
<u><u>\$8,232</u></u>
\$0
0
0
0
0
0
0
0
0
0
8,232
<u>8,232</u>
<u><u>\$8,232</u></u>

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
Instruction	\$1,576,619	\$0	\$501,999
Support services	856,411	0	0
Community services	14,730	0	0
Interest on long-term debt*	49,930	0	0
Cocurricular activities	164,404	33,007	0
Total Governmental Activities	2,662,094	33,007	501,999
Business-type Activities:			
Food service	173,576	55,759	112,311
TOTAL PRIMARY GOVERNMENT	\$2,835,670	\$88,766	\$614,310
Component Unit			
Cocurricular Activities	\$0	\$0	\$0

- * The District does not have interest expense related to the functions presented above. This amount represents indirect interest expense on general long-term debt.

GENERAL REVENUES:

Real estate taxes
Gross receipt taxes
State aid
Unrestricted investment earnings
Other general revenues

Total general revenues

Change in net assets
Net assets, beginning,
as previously reported
Correction (Note 12)
Net assets, beginning,
as restated

Net assets, ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Unit
\$0	(\$1,074,620)	\$0	(\$1,074,620)	\$0
65,000	(791,411)	0	(791,411)	0
0	(14,730)	0	(14,730)	0
0	(49,930)	0	(49,930)	0
0	(131,397)	0	(131,397)	0
65,000	(2,062,088)	0	(2,062,088)	0
0	0	(5,506)	(5,506)	0
<u>\$65,000</u>	<u>(2,062,088)</u>	<u>(5,506)</u>	<u>(2,067,594)</u>	<u>0</u>
	0	0	0	0
	1,080,923	0	1,080,923	0
	92,004	0	92,004	0
	930,901	0	930,901	0
	58,950	0	58,950	158
	45,059	0	45,059	0
	2,207,837	0	2,207,837	158
	145,749	(5,506)	140,243	158
	4,350,624	42,645	4,393,269	8,074
	(102,540)	0	(102,540)	0
	4,248,084	42,645	4,290,729	8,074
	<u>\$4,393,833</u>	<u>\$37,139</u>	<u>\$4,430,972</u>	<u>\$8,232</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$974,891	\$735,997	\$172,873
Imprest account	10,000	0	0
Taxes receivable-current	262,759	169,072	75,880
Taxes receivable-delinquent	9,337	4,827	2,156
Due from other governments	95,706	0	0
Inventory of supplies	22,000	0	0
Restricted cash	0	0	0
Inventory of supplies	0	0	0
TOTAL ASSETS	\$1,374,693	\$909,896	\$250,909
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$32,296	\$4,472	\$0
Contracts payable	135,179	0	11,537
Payroll deductions and withholding and employer matching payable	31,421	0	3,622
Deferred revenue	272,096	173,899	86,796
TOTAL LIABILITIES	470,992	178,371	101,955
Fund balances:			
Reserved for inventory	22,000	0	0
Reserved for debt service	0	0	0
Unreserved:			
Designated for FY '10 budget	416,402	237,989	0
Undesignated	465,299	493,536	148,954
TOTAL FUND BALANCE	903,701	731,525	148,954
TOTAL LIABILITIES AND FUND BALANCE	\$1,374,693	\$909,896	\$250,909

The accompanying notes to financial statements are an integral part of this statement

QZAB Fund	Total Governmental Funds
\$0	\$1,883,761
0	10,000
0	507,711
0	16,320
0	95,706
0	22,000
30,000	30,000
395,481	395,481
<u>\$425,481</u>	<u>\$2,960,979</u>
\$0	36,768
0	146,716
0	35,043
0	532,791
<u>0</u>	<u>751,318</u>
0	22,000
425,481	425,481
0	654,391
0	1,107,789
<u>425,481</u>	<u>2,209,661</u>
<u>\$425,481</u>	<u>\$2,960,979</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2010

Total Fund Balances-Government Funds	\$2,209,661
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,973,548
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Long-term liabilities, including loans and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.	(1,796,228)
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Assets such as taxes receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	16,320
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Accrued interest payable is not recorded in the funds but is accrued for the statement of net assets.	<u>(9,468)</u>
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Net Assets-Governmental Funds	<u><u>\$4,393,833</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$567,288	\$309,740	\$192,476
Prior year's ad valorem taxes	1,979	1,052	388
Gross receipts taxes	92,004	0	0
Penalties and interest	1,635	698	343
Earnings on deposits:			
Interest earned	25,867	6,079	0
Cocurricular activities:			
Admissions	29,932	0	0
Other	3,075	0	0
Other revenues from local sources:			
Contributions	7,363	50,000	0
Other	17,160	0	1,033
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	24,496	0	0
Other	2,196	117	57
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	930,901	0	0
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	381,663	367	112,606
 Total Revenue	 \$2,085,559	 \$368,053	 \$306,903

The accompanying notes to financial statements are an integral part of this statement.

QAZB Fund	Total Governmental Funds
\$0	\$1,069,504
0	3,419
0	92,004
0	2,676
27,004	58,950
0	29,932
0	3,075
0	57,363
0	18,193
0	24,496
0	2,370
0	930,901
0	494,636
\$27,004	\$2,787,519

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$594,737	\$4,472	\$0
High school	594,140	28,696	0
Other	1,914	0	0
Special Programs:			
Programs for special education	0	0	136,732
Educationally deprived	105,815	16,359	0
Support Services:			
Pupils-			
Attendance and social work	2,350	0	0
Guidance	51,695	0	0
Health	485	0	0
Psychological	0	0	21,617
Speech pathology	0	0	21,312
Student therapy	0	0	13,570
Instructional staff-			
Improvement of instruction	31,947	0	0
Educational media	23,706	2,593	0
General administration-			
Board of education	43,283	0	0
Executive administration	113,127	2,912	0
School administration-			
Office of principal	89,089	0	0
Other	4,104	0	0
Business-			
Fiscal services	79,375	0	0
Operation and maintenance of plant	210,657	18,760	0
Pupil transportation	94,664	0	0
Community Services:			
Custody and care of children	14,730	0	0

The accompanying notes to financial statements are an integral part of this statement.

QZAB Fund	Total Governmental Funds
\$0	\$599,209
0	622,836
0	1,914
0	136,732
0	122,174
0	2,350
0	51,695
0	485
0	21,617
0	21,312
0	13,570
0	31,947
0	26,299
0	43,283
0	116,039
0	89,089
0	4,104
0	79,375
0	229,417
0	94,664
0	14,730

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Capital Outlay Fund	Special Education Fund
Debt Service	\$0	\$131,219	\$0
Cocurricular activities:			
Male activities	44,083	0	0
Female activities	34,119	0	0
Transportation	16,082	0	0
Combined activities	39,330	10,858	0
Capital outlay	0	117,434	0
Total Expenditures	<u>2,189,432</u>	<u>333,303</u>	<u>193,231</u>
Excess of Revenues Over (Under) Expenditures	(103,873)	34,750	113,672
Other Financing Sources (Uses):			
Transfer-in	41,786	0	0
General long-term debt issued	0	325,000	0
Transfers-out	0	(77,094)	(37,542)
Net Change in Fund Balances	<u>(62,087)</u>	<u>282,656</u>	<u>76,130</u>
FUND BALANCE, BEGINNING, as previously reported	965,788	448,869	72,824
Correction (Note 12)	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCE, BEGINNING, as restated	<u>965,788</u>	<u>448,869</u>	<u>72,824</u>
FUND BALANCE, ENDING	<u><u>\$903,701</u></u>	<u><u>\$731,525</u></u>	<u><u>\$148,954</u></u>

The accompanying notes to financial statements are an integral part of this statement.

QZAB Fund	Total Governmental Funds
\$7,275	\$138,494
0	44,083
0	34,119
0	16,082
0	50,188
0	117,434
<u>7,275</u>	<u>2,723,241</u>
19,729	64,278
77,094	118,880
0	325,000
0	(114,636)
<u>96,823</u>	<u>393,522</u>
0	1,487,481
<u>328,658</u>	<u>328,658</u>
<u>328,658</u>	<u>1,816,139</u>
<u>\$425,481</u>	<u>\$2,209,661</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net Changes in Fund Balances-Total Governmental Funds	\$393,522
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(15,444)
Donated capital assets are not reflected in the funds statement.	15,000
Governmental funds report proceeds of long-term debt as a means of finance. The statement of activities treats these proceeds as an increase in liabilities	(325,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	93,234
The statement of activities reports the change in accrued interest payable as an expense.	(4,670)
Government funds report property taxes as revenue when cash is received, or within a 60 day period after year-end, to the extent they were intended to finance the current year but the statement of activities includes the property taxes as revenue when earned for the year they were intended to finance.	5,324
The statement of activities reports the change in prepaid insurance as an expense.	(11,370)
The funds statement does not include the activity of the internal service fund. This is included in the statement of activity.	(4,244)
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(603)
Change in Net Assets of Governmental Activities	<u>\$145,749</u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
BALANCE SHEET-PROPRIETARY FUNDS
JUNE 30, 2010

	ENTERPRISE FUNDS
	Food Service Fund
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$13,197
Due from other governments	\$8,583
Inventory of supplies	22
Inventory of stores purchased for resale	79
Inventory of donated food	155
Total Current Assets	<u>22,036</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	37,586
Accumulated depreciation	<u>(22,483)</u>
Total Noncurrent Assets	<u>15,103</u>
TOTAL ASSETS	<u><u>\$37,139</u></u>
LIABILITIES	<u>\$0</u>
NET ASSETS:	
Invested in capital assets	15,103
Unrestricted net assets	<u>22,036</u>
Total Net Assets	<u>37,139</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$37,139</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Funds
Operating Revenue:		
Sales:		
To pupils	\$48,901	\$0
To adults	6,858	0
Total Operating Revenue	<u>55,759</u>	<u>0</u>
Operating Expenses:		
Food services:		
Salaries	36,056	0
Employee benefits	9,620	0
Purchased services	51,425	0
Supplies	4,141	0
Cost of sales-purchased food	61,049	0
Cost of sales-donated food	9,245	0
Depreciation	2,040	0
Total Operating Expenses	<u>173,576</u>	<u>0</u>
Operating Income (Loss)	<u>(117,817)</u>	<u>0</u>
Nonoperating Revenue (Expense):		
State Sources:		
Cash reimbursements	903	0
Federal Sources:		
Cash reimbursements	102,516	0
Donated food	8,892	0
Total Nonoperating Revenue (Expense)	<u>112,311</u>	<u>0</u>
Income (Loss) before transfers	(5,506)	0
Transfers-out	0	(4,244)
Change in net assets	<u>(5,506)</u>	<u>(4,244)</u>
Net Assets-beginning	<u>42,645</u>	<u>4,244</u>
NET ASSETS-ending	<u><u>\$37,139</u></u>	<u><u>\$0</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Receipts from customers	\$55,759	\$0
Payments to suppliers	(116,549)	0
Payments to employees	(45,676)	0
Net Cash Provided (Used) by Operating Activities	(106,466)	0
Cash Flows from Noncapital Financing Activities:		
Operating subsidiaries	103,957	0
Transfers-out	0	(4,244)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,509)	(\$4,244)
Cash and Cash Equivalents at Beginning of Year	\$15,706	\$4,244
Cash and Cash Equivalents at End of Year	13,197	0
Net Decrease in Cash and Cash Equivalents	(2,509)	(\$4,244)

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	(\$117,817)	\$0
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	2,040	0
Commodities used	9,245	0
Changes in Assets and Liabilities:		
Inventories	66	0
Net Cash Provided (Used) by Operating Activities	(\$106,466)	\$0
Noncash Investing, Capital and Financing Activities:		
Value of commodities received	\$8,892	\$0

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private-purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS:		
Cash and cash equivalents	<u>\$78,310</u>	<u>\$62,275</u>
Total Assets	<u><u>\$78,310</u></u>	<u><u>\$62,275</u></u>
 LIABILITIES:		
Amounts held for others	\$0	\$62,275
 NET ASSETS:		
Held in trust for scholarships	<u>78,310</u>	<u>0</u>
 Total Liabilities and Net Assets	<u><u>\$78,310</u></u>	<u><u>\$62,275</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR YEAR ENDED JUNE 30, 2010

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$6,000
Interest	<u>3,028</u>
Total Additions	<u>9,028</u>
 DEDUCTIONS:	
Trust deductions for scholarships	<u>9,566</u>
Total Deductions	<u>9,566</u>
 Change in Net Assets	(538)
 Net Assets-beginning	<u>78,848</u>
 NET ASSETS-ending	<u><u>\$78,310</u></u>

The accompanying notes to financial statements are an integral part of this statement.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Kimball School District No. 7-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Financial statements of the Kimball Public Schools Foundation, Incorporated are presented in the accompanying financial statements under "component unit".

The component unit is a nonprofit organization formed to raise funds for special recreation projects of the school district. The governing board is composed of the school district superintendent, business manager, board members and two alumni.

The criteria for including the component unit in the financial reporting entity is that of control. Since the majority of the directors are either School District employees or board members. The School District has control over the decisions of the Foundation. The component unit is reported using the accrual basis of accounting.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements for the component unit can be obtained from the Kimball School District by calling (605)778-6231.

The school district participates in a cooperative service unit with eleven other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the district.

b. Basis of Presentation, Basis of Accounting:

Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. The statements distinguish between the *governmental and business-type activities* and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1a, above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1a, above.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

DEBT SERVICE FUNDS TYPES - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The QZAB Fund - A fund established by SDCL 13-16-13 to account for transfers-in from the Capital Outlay Fund to use for the payment of principal and interest on QZAB loans. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to accounted for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. Internal service funds are

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

never considered to be major funds. The unemployment fund is the only internal service fund maintained by the school district. It was closed in fiscal 2010.

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

Scholarship trusts (four separate trusts established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The district maintains agency funds for the following purposes:

Class clubs

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental a fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Kimball School District No. 7-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2010 are miscellaneous revenues and reimbursement grants.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including unemployment costs, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Service Funds, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2010 balance of capital assets for governmental activities includes approximately two percent for which the costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost. The total June 30, 2010 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	-	-
Buildings	\$25,000	Straight-line	15-50 yrs
Machinery and Equipment:			
General	\$ 5,000	Straight-line	4-20 yrs
Food Service	\$ 500	Straight-line	12 yrs
Land, an inexhaustible capital asset, is not depreciated.			

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, loans, and capital outlay certificates payable.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

All interest expense on long-term debt is reported as a separate line on the "Statement of Activities."

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other acquisition, construction, or improvement of those assets.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued):

from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - in General, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments held as of June 30, 2010 were:

Investment	Credit Rating	Maturities	Fair Value
US Treasury Bills	N/A	12/29/10	<u>\$ 84,639</u>
Mutual Funds:			
Bank of America			
Treasury Fund	Not rated	N/A	171,477
First National Bank			
Treasury Fund	Not rated	N/A	<u>139,365</u>
			<u>310,842</u>
			<u>\$395,481</u>

The above investments are all restricted for use as individual "sinking funds" to be accumulated for payment on QZAB Term Bonds.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued):

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District Does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income - State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated un-collectibles have been established.

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

4. INVENTORY (continued):

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. Inventories are recorded using the "consumption method" in the funds statement, the same manner as in the government-wide statements described above. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

6. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2010 is as follows:

Primary Government

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>7/01/09</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/10</u>
Government Activities:				
Capital Assets not being depreciated				
Land	\$ 21,825	\$ 15,000	\$ -	\$ 36,825
Capital Assets being depreciated				
Buildings	3,831,412	84,286	-	3,915,698
Improvements	214,304	-	-	214,304
Machinery and Equipment	<u>963,220</u>	<u>33,148</u>	<u>9,890</u>	<u>986,478</u>
Total	<u>5,008,936</u>	<u>117,434</u>	<u>9,890</u>	<u>5,116,480</u>
Less accumulated depreciation:				
Buildings	556,422	52,011	-	608,433
Improvements	108,430	14,365	-	122,795
Machinery and Equipment	<u>391,917</u>	<u>66,502</u>	<u>9,890</u>	<u>448,529</u>
Total	<u>1,056,769</u>	<u>132,878</u>	<u>9,890</u>	<u>1,179,757</u>
Total capital assets being depreciated, net:	<u>3,952,167</u>	<u>(15,444)</u>	<u>-</u>	<u>3,936,723</u>
Governmental activity capital assets, net:	<u>\$ 3,973,992</u>	<u>\$ (444)</u>	<u>\$ -</u>	<u>\$ 3,973,548</u>
Business-type activities:				
Capital assets being depreciated:				
Machinery and Equipment	\$ 37,586	\$ -	\$ -	\$ 37,586

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance 7/01/09	Increase	Decrease	Balance 06/30/10
Less accumulated depreciation:	\$ 20,443	\$ 2,040	\$ -	\$ 22,483
Business-type activity capital assets, net	\$ 17,143	\$ (2,040)	\$ -	\$ 15,103

Depreciation expense was charged to functions as follows:

Governmental activities	
Instruction	\$ 82,384
Support Services	30,562
Cocurricular Activities	19,932
	<u>\$ 132,878</u>
Business-type activities:	
Food Service	<u>\$ 2,040</u>

7. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	Capital Outlay Certifi- cates	QZAB's	Loan	Compen- sated Absences	Total
Debt Payable, June 30, 2009	\$ 325,000	\$ 643,802	\$141,311	\$22,548	\$1,132,661
Correction (Note 12)	-	431,198	-	-	431,198
Additions	-	325,000	-	11,903	336,903
Deletions	<u>(60,000)</u>	<u>-</u>	<u>(33,234)</u>	<u>(11,300)</u>	<u>(104,534)</u>
Debt Payable, June 30, 2010	<u>\$ 265,000</u>	<u>\$1,400,000</u>	<u>\$108,077</u>	<u>\$23,151</u>	<u>\$1,796,228</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. LONG-TERM LIABILITIES: (continued)

	Capital Outlay Certifi- cates	QZAB's	Loans	Compen- sated Absences	Total
Due within one year	\$ <u>60,000</u>	\$ <u>-</u>	\$ <u>34,896</u>	\$ <u>11,576</u>	\$ <u>106,472</u>

Debt payable at June 30, 2010 comprised of the following:

Capital Outlay Certificates:

Series 2002 Capital Outlay Certificates, interest rates of 4.3% to 5% (depending on length to maturity of the individual certificate), maturing March 1, 2017. The are being repaid by the Capital Outlay Fund. \$ 265,000

Qualified Zone Academy Bonds (QZAB's):

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual sinking fund payments of \$13,819 until 2021. The payments are being made from the Capital Outlay Fund via transfers to a Debt Service sinking fund. 250,000

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual sinking fund payments of \$19,000 until December 31, 2015. The payments are being made from the Capital Outlay Fund via transfers to a Debt Service Fund. 325,000

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. LONG-TERM LIABILITIES: (continued)

Zero interest "Qualified Zone Academy Bonds". Interest is not imputed because this is the customary cash lending procedure of the financial institution for this type of bonds. The bonds are due in annual sinking fund payments of \$22,008 until November 12, 2013. The payments are being made from the Capital Outlay Fund via Debt Service Fund. \$ 250,000

1.5% interest "Qualified Zone Academy Bonds". The bonds are due in annual payments of \$15,000 to a sinking fund plus interest until 2018 and \$20,000 plus interest annually until 2023. The payments are being made from the Capital Outlay Fund via transfers to a Debt Service Fund. 250,000

1.5% interest "Qualified Zone Academy Bonds". The bonds are due in annual payments of \$21,667 to a sinking fund plus interest until 2024. The payments are being made from the Capital Outlay Fund via transfers to a Debt Service Fund. 325,000

Total QZAB's: \$1,400,000

Rural Economic Development Loan, sponsored by the U.S. Department of Agriculture, due in annual installments of \$40,300. This is an interest free loan, but is recorded using an imputed interest rate of 5%. This loan is being paid by the Capital Outlay Fund. Maturity is 2013. \$ 108,077

Compensated Absences:
Vacation and sick leave \$ 23,151

This liability is paid from the General Fund.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

7. LONG-TERM LIABILITIES: (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2010 excluding compensated absences:

Annual Requirements to Amortize Long-term Debt
June 30, 2010

Year Ended	Capital Outlay		QZAB's		Loan	
	Certificates		Principal	Interest	Principal	Interest
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 60,000	\$ 11,605	\$ -	\$10,480	\$ 34,896	\$ 5,404
2012	65,000	9,025	-	7,463	36,641	3,695
2013	70,000	6,230	-	6,912	36,540	3,760
2014	70,000	3,115	250,000	6,363	-	-
2015	-	-	-	5,813	-	-
2016-2010	-	-	575,000	21,004	-	-
2021-2025	-	-	575,000	5,561	-	-
Total	<u>\$265,000</u>	<u>\$ 29,975</u>	<u>\$1,400,000</u>	<u>\$63,596</u>	<u>\$108,077</u>	<u>\$ 12,859</u>

Year Ended	Total	
	Principal	Interest
June 30,		
2011	\$ 94,896	\$ 27,489
2012	101,641	20,183
2013	106,540	16,902
2014	320,000	9,478
2015	-	5,813
2016-2020	575,000	21,004
2021-2025	<u>575,000</u>	<u>5,561</u>
Totals	<u>\$1,773,077</u>	<u>\$106,430</u>

8. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Food Service Fund	Law	\$ 22,036
Capital Outlay Fund	Law	726,884
Special Education Fund	Law	151,110
Debt Service Fund	Loan Agreements	425,481
Total Restricted Net Assets:		<u>\$1,325,511</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

9. RETIREMENT PLAN

All employees, except for classified employees, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial

statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution.

State statute also required the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$82,473, \$80,323, and \$80,372 respectively, equal to the required contributions each year.

10. JOINT VENTURES

The school district participates in the Mid-central Cooperative, a cooperative service unit (co-op) formed for the purpose of providing special education and other services to the member school districts. The members of the co-op and their relative percentage of participation are:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

10. JOINT VENTURES (continued)

Armour School District	5.17%
Burke School District	6.26%
Colome School District	7.16%
Corsica School District	5.17%
Gregory School District	11.73%
Kimball School District	8.87%
Mt. Vernon School District	7.58%
Plankinton School District	8.42%
Platte-Geddes School District	14.52%
Stickney School District	4.08%
Wessington Springs School District	9.00%
White Lake School District	4.30
Wolsey-Wessington School District	7.74%
	<u>100.00%</u>

The co-op's governing board is composed of one representative from each member school district who is a school board member. The board is responsible for adopting the co-op's budget and setting service fees at a level adequate to fund the adopted budget.

The school district retains no equity in the net assets of the co-op, but does have a responsibility to fund deficits of the co-op in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Mid-central Cooperative, Platte, South Dakota.

As of June 30, 2009, this joint venture had total net assets of \$3,713,983 and long-term debt of \$21,591.

11. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the school district managed its risks as follows:

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

11. RISK MANAGEMENT (continued)

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the coverage during the past three years.

Liability Insurance:

The school district purchases liability insurance for risks related to torts; theft of or damage to property, and errors and omission of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended June 30, 2010, no claims were paid for unemployment benefits. At June 30, 2010, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

Workmen's Compensation Insurance:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

11. RISK MANAGEMENT (continued)

safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,000,000 per individual per incident.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

12. CORRECTION

The June 30, 2009 equity balances have been corrected because QZAB debt was previously reported as "serial bonds". The bonds were subsequently deemed "term bond", thus all previously reported principal payments on these bonds were actually payments to a sinking fund.

	<u>Funds Statement</u>	<u>Statement of Net Assets</u>
Effect of corrections:		
Sinking fund assets	\$ 328,698	\$ 328,658
Long-term debt	<u>-</u>	<u>(431,198)</u>
Total correction	<u>\$ 328,658</u>	<u>\$ (102,540)\$</u>

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND-BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$509,474	\$509,474	\$567,288
Prior year's ad valorem taxes	0	0	1,979
Gross receipts taxes	53,000	53,000	92,004
Penalties and interest	0	0	1,635
Earnings on deposits:			
Interest earned	12,000	12,000	25,867
Cocurricular activities:			
Admissions	20,000	20,000	29,932
Other	0	0	3,075
Other revenues from local sources:			
Contributions	0	0	7,363
Other	80,000	80,000	17,160
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	20,000	20,000	24,496
Other	0	0	2,196
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	1,059,682	1,059,682	930,901
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	410,533	410,533	381,663
Total Revenue	\$2,164,689	\$2,164,689	\$2,085,559

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

\$57,814

1,979

39,004

1,635

13,867

9,932

3,075

7,363

(62,840)

4,496

2,196

(128,781)

(28,870)

(79,130)

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$616,173	\$616,173	\$594,737
High school	680,851	680,851	594,140
Other	2,500	2,500	1,914
Special Programs:			
Educationally deprived	116,555	116,555	105,815
Support Services:			
Pupils-			
Attendance and social work	3,500	3,500	2,350
Guidance	56,363	56,363	51,695
Health	1,000	1,000	485
Instructional staff-			
Improvement of instruction	41,478	41,478	31,947
Educational media	15,445	15,445	23,706
General administration-			
Board of education	52,045	52,045	43,283
Executive administration	112,679	112,679	113,127
School administration-			
Office of principal	87,155	87,155	89,089
Other	3,812	3,812	4,104
Business-			
Fiscal services	76,450	76,450	79,375
Operation and maintenance of plant	261,189	261,189	210,657
Pupil transportation	114,509	114,509	94,664
Community Services:			
Custody and care of children	0	0	14,730

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

\$21,436

86,711

586

10,740

1,150

4,668

515

9,531

(8,261)

8,762

(448)

(1,934)

(292)

(2,925)

50,532

19,845

(14,730)

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Cocurricular activities:			
Male activities	\$44,968	\$44,968	\$44,083
Female activities	31,570	31,570	34,119
Transportation	25,112	25,112	16,082
Combined activities	49,691	49,691	39,330
Total Expenditures	<u>2,393,045</u>	<u>2,393,045</u>	<u>2,189,432</u>
Excess of Revenues Over (Under) Expenditures	(228,356)	(228,356)	(103,873)
Other Financing Sources (Uses):			
Transfer-in	<u>0</u>	<u>0</u>	<u>41,786</u>
Net Change in Fund Balances	(228,356)	(228,356)	(62,087)
FUND BALANCE, July 1, 2009	<u>965,788</u>	<u>965,788</u>	<u>965,788</u>
FUND BALANCE, June 30, 2010	<u><u>737,432</u></u>	<u><u>737,432</u></u>	<u><u>903,701</u></u>

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with Final Budget
\$885
(2,549)
9,030
10,361
203,613

124,483

41,786

166,269

0

166,269

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - CAPITAL
OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$342,000	\$342,000	\$309,740
Prior year's ad valorem taxes	0	0	1,052
Penalties and interest	0	0	698
Interest earned	0	0	6,079
Contributions	0	0	50,000
Revenues from Intermediate Sources:			
County Sources:			
Other	0	0	117
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	363,382	363,382	367
Total Revenue	<u>\$705,382</u>	<u>\$705,382</u>	<u>\$368,053</u>
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	5,000	5,000	5,857
High school	30,000	30,000	28,696
Special Programs:			
Educationally deprived	0	0	16,359
Support Services:			
Instructional staff-			
Educational media	10,000	10,000	2,593
General administration-			
Executive administration	3,000	3,000	2,912

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

(\$32,260)

1,052

698

6,079

50,000

117

(363,015)

(337,329)

(857)

1,304

(16,359)

7,407

88

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - CAPITAL
OUTLAY FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Business			
Operation and maintenance of plant	\$173,138	\$173,138	\$126,409
Pupil transportation	34,000	34,000	8,400
Debt Services	442,544	442,544	131,219
Cocurricular activities:			
Combined activities	7,700	7,700	10,858
Total Expenditures	<u>705,382</u>	<u>705,382</u>	<u>333,303</u>
Excess of Revenues Over (Under) Expenditures	0	0	34,750
Other Financing Sources (Uses):			
Transfers-out	0	0	(77,094)
General long-term debt issued	<u>0</u>	<u>0</u>	<u>325,000</u>
Net Change in Fund Balances	0	0	282,656
FUND BALANCE, July 1, 2009	<u>448,869</u>	<u>448,869</u>	<u>448,869</u>
FUND BALANCE, June 30, 2010	<u><u>\$448,869</u></u>	<u><u>\$448,869</u></u>	<u><u>\$731,525</u></u>

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

\$46,729

25,600

311,325

(3,158)

372,079

34,750

(77,094)

325,000

282,656

0

\$282,656

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - SPECIAL
EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$153,699	\$153,699	\$192,476
Prior year's ad valorem taxes	0	0	388
Penalties and interest	0	0	343
Contributions	0	0	1,033
Revenues from Intermediate Sources:			
County Sources:			
Other	0	0	57
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	99,605	99,605	112,606
Total Revenue	253,304	253,304	306,903
Expenditures:			
Instruction:			
Special Programs:			
Programs for special education	122,201	122,201	136,732
Support Services:			
Pupils:			
Pyschological	15,342	15,342	21,617
Speech	16,770	16,770	21,312
Student therapy	58,390	58,390	13,570
Other	5,500	5,500	0

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

\$38,777

388

343

1,033

57

13,001

53,599

(14,531)

(6,275)

(4,542)

44,820

5,500

KIMBALL SCHOOL DISTRICT NO. 7-2
REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - SPECIAL
EDUCATION FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual
	Original	Final	
Total Expenditures	<u>\$218,203</u>	<u>\$218,203</u>	<u>\$193,231</u>
Excess of Revenues Over (Under) Expenditures	35,101	35,101	113,672
Other Financing Sources (Uses): Transfers-out	<u>0</u>	<u>0</u>	<u>(37,542)</u>
Net Change in Fund Balances	35,101	35,101	76,130
FUND BALANCE, July 1, 2009	<u>72,824</u>	<u>72,824</u>	<u>72,824</u>
FUND BALANCE, June 30, 2010	<u><u>\$107,925</u></u>	<u><u>\$107,925</u></u>	<u><u>\$148,954</u></u>

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance
with Final
Budget

24,972

78,571

(37,542)

41,029

0

\$41,029

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

1. Budgets and Budgetary Accounting:

The school district followed these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayers input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in numbers 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total school district and may transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.

KIMBALL SCHOOL DISTRICT NO. 7-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board. No encumbrances were outstanding at year-end.
10. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
11. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Federal CFDA Number	Pass- through Grantor's Number	Expendures
U.S.DEPARTMENT OF AGRICULTURE:			
Pass-thourgh the S.D. Department of Educaiton:			
Child Nutrition Cluster:			
Non-cash Assistance (Commodities)			
National School Lunch Program	10.555	70020	\$9,245
Cash Assistance:			
School Breakfast Program (Note 2)	10.553	70020	28,291
National School Lunch Program (Note2)	10.555	70020	74,225
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>111,761</u>
U.S. DEPARTMENT OF EDUCATION:			
Pass-through the S.D. Department of Education:			
Title I Programs-Local Education Agencies	84.010	T1-10-13	57,697
Title I-ARRA	84.389	T1-10-13	114,307
Total Title I (Note 3)			172,004
Safe and Drug Free School and Communities			
State Grants	84.186	N/A	3,037
Education Technology State Grants	84.318	N/A	1,856
Reading First - State Grants (Note 3)	84.357	TIRF-10-13	101,036
Improving Teacher Quality State Grants	84.367	N/A	32,297
State Fiscal Stabilization Funds (Note 3)	ARRA 84.394	N/A	71,433
Special Education Cluster (Note 2)			
Special Education Grants to States	84.027	N/A	35,439
Special Education-Preschool	84.173	N/A	1,032
Special Education Grants to States	ARRA 84.391	N/A	72,643
Special Education -Preschool	ARRA 84.392	N/A	3,492
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>494,269</u>
GRAND TOTAL			<u><u>\$606,030</u></u>

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Note 1: The accompany Schedule of Federal Awards includes the federal grant activity of the School and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: This represents a major federal financial assistance program.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. Two significant deficiencies and material weaknesses were disclosed by the audit. See Section 2, Finding Number 2010-01 and 2010-2.
- c. No instances of noncompliance were noted by the audit.
- d. A significant deficiency and material weakness in internal control over major programs was noted. See Section 3, Finding Number 2010-02 below.
- e. An unqualified report was issued on compliance for major programs.
- f. Audit findings required to be reported under Section .510 (a) of OMB Circular A-133 are listed below in Section 3, Finding Number 2009-01 and 2009-03.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
Title I Programs-	
Local Education Agencies	84.010 + 84.389
Reading First-	
State Grants	84.357
State Fiscal	
Stabilization ARRA	84.394

- h. The dollar threshold used to distinguish between Type A and Type B Programs was \$300,000.
- i. The Entity was not qualified as a low risk auditee as described in Section .530 of OMB Circular A-133.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2010-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan on this comment. This comment is a result of the size of the Kimball School District No. 7-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kimball School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Kimball School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2010

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2010-02:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2010-01 above for further explanation.

Major Federal Programs Affected:

Title I Programs-

Local Educational Agencies	CFDA No. 84.010
Reading First-State Grants	CFDA No. 84.357
State Fiscal Stabilization Funds	CFDA No. 84.394

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan on this comment. This comment is a result of the size of the Kimball School District No. 7-2 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Kimball School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Kimball School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

**KIMBALL SCHOOL DISTRICT NO. 7-2
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 2009-01, 2009-02, and 2008-01:

A material weakness was reported due to a lack of segregation of duties. This condition was first reported by this auditor in 1998.

Status as of June 30, 2010:

The condition noted in prior audits is still applicable.

FINDING NO. 2009-03:

Capital Outlay Fund budget was overspent in 2009.

Status as of June 30, 2010:

No budgets were overspent in fiscal 2010.